INTRODUCTORY STATEMENT

PRESS CONFERENCE

Christine Lagarde, President of the ECB,Luis de Guindos, Vice-President of the ECB,Frankfurt am Main, 12 December 2019

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Ladies and gentlemen, welcome to our press conference. Today is the first time that I have had the privilege and pleasure of chairing the monetary policy meeting of the Governing Council of the ECB. I am delighted to proceed now with reporting on the outcome of our meeting, together with the Vice-President. The Governing Council meeting was also attended by the Commission Executive Vice-President, Mr Dombrovskis.

Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We expect them to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

On 1 November we restarted net purchases under our asset purchase programme (APP) at a monthly pace of €20 billion. We expect them to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates.

We also intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The incoming data since the last Governing Council meeting in late October point to continued muted inflation pressures and weak euro area growth dynamics, although there are some initial signs of stabilisation in the growth slowdown and of a mild increase in underlying inflation in line with previous expectations. Ongoing employment growth and increasing wages continue to underpin the resilience of the euro area economy.

The comprehensive package of policy measures that the Governing Council decided in September provides substantial monetary stimulus, which ensures favourable financing conditions for all sectors of the economy. In particular, easier borrowing conditions for firms and households are underpinning consumer spending and business investment. This will support the euro area expansion, the ongoing build-up of domestic price pressures and, thus, the robust convergence of inflation to our medium-term aim.

In the light of the subdued inflation outlook, the Governing Council reiterated the need for monetary policy to remain highly accommodative for a prolonged period of time to support underlying inflation pressures and headline inflation developments over the medium term. We will, therefore, closely monitor inflation developments and the impact of the unfolding monetary policy measures on the economy. Our forward guidance will ensure that financial conditions adjust in accordance with changes to the inflation outlook. In any case, the Governing Council continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP growth was confirmed at 0.2%, quarter on quarter, in the third quarter of 2019, unchanged from the previous quarter. The ongoing weakness of international trade in an environment of persistent global uncertainties continues to weigh on the euro area manufacturing sector and is dampening investment growth. At the same time, incoming economic data and survey information, while remaining weak overall, point to some stabilisation in the slowdown of economic growth in the euro area. The services and construction sectors remain resilient, despite some moderation in the latter half of 2019. Looking ahead, the euro area expansion will continue to be supported by favourable financing conditions, further employment gains in conjunction with rising wages, the mildly expansionary euro area fiscal stance and the ongoing – albeit somewhat slower – growth in global activity.

This assessment is broadly reflected in the December 2019 Eurosystem staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.2% in 2019, 1.1% in 2020 and 1.4% in both 2021 and 2022. Compared with the September 2019 ECB staff macroeconomic projections, the outlook for real GDP growth has been revised down slightly for 2020.

The risks surrounding the euro area growth outlook, related to geopolitical factors, rising protectionism and vulnerabilities in emerging markets, remain tilted to the downside, but have become somewhat less pronounced.

According to Eurostat's flash estimate, euro area annual HICP inflation increased from 0.7% in October 2019 to 1.0% in November, reflecting mainly higher services and food price inflation. On the basis of current futures prices for oil, headline inflation is likely to rise somewhat in the coming months. Indicators of inflation expectations stand at low levels. Measures of underlying inflation have remained generally muted, although there are some indications of a mild increase in line with previous expectations. While labour cost pressures have strengthened amid tighter labour markets, the weaker growth momentum is delaying their pass-through to inflation. Over the medium term, inflation is expected to increase, supported by our monetary policy measures, the ongoing economic expansion and solid wage growth.

This assessment is also broadly reflected in the December 2019 Eurosystem staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.2% in 2019, 1.1% in 2020, 1.4% in 2021 and 1.6% in 2022. Compared with the September 2019 ECB staff macroeconomic projections, the outlook for HICP inflation has been revised up slightly for 2020 and down slightly for 2021, mainly driven by the expected future path of energy prices.

Turning to the **monetary analysis**, broad money (M3) growth stood at 5.6% in October 2019, unchanged from the previous month. Sustained rates of broad money growth reflect ongoing bank credit creation for the private sector and low opportunity costs of holding M3 relative to other financial instruments. The narrow monetary aggregate M1 continues to be the main contributor to broad money growth on the components side.

The growth of loans to firms and households remained solid, benefiting from the continued pass-through of our accommodative monetary policy stance to bank lending rates. The annual growth rate of loans to non-financial corporations increased to 3.8% in October, up from 3.6% in September, while the annual growth rate of loans to households continued on its gradual upward path, reaching 3.5% in October. Our accommodative monetary policy stance will help to safeguard very favourable bank lending conditions and will continue to support access to financing, across all economic sectors and in particular for small and medium-sized enterprises.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued robust convergence of inflation to levels that are below, but close to, 2% over the medium term.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential, supporting aggregate demand at the current juncture and reducing vulnerabilities. The implementation of **structural policies** in euro area countries needs to be substantially stepped up to boost euro area productivity and growth potential, reduce structural unemployment and increase resilience. The 2019 country-specific recommendations should serve as the relevant signpost.

Regarding **fiscal policies**, the euro area fiscal stance is expected to remain mildly expansionary in 2020, thus providing support to economic activity. In view of the weakened economic outlook, the Governing Council welcomes the Eurogroup’s call for differentiated fiscal responses and its readiness to coordinate. Governments with fiscal space should be ready to act in an effective and timely manner. In countries where public debt is high, governments need to pursue prudent policies and meet structural balance targets, which will create the conditions for automatic stabilisers to operate freely. All countries should intensify their efforts to achieve a more growth-friendly composition of public finances.

Likewise, the transparent and consistent implementation of the European Union’s fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

We are now at your disposal for questions.

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President Lagarde: Before the questions I'm going to take just a couple of minutes of your time to tell you a few things. One is, each and every President has his or her own style of communicating. I know some of you are keen to compare and rate or rank. I will have my own style. As I've said before, don't over-interpret, don't second-guess, don't cross-reference. I'm going to be myself and therefore probably different. Point number 1. Point number 2, this introductory statement probably rings a few bells for those of you who follow those documents very carefully. But some of you will be disappointed that it does not include anything having to do with the strategic review. It is intended to be that way, so the introductory statement does not include, does not refer and should not be associated with the strategic review that we are considering. I'll be happy to give you – I can do that now actually if you want – a little bit of my thinking and our collective thinking on the strategic review because I know that it is of interest to some of you. Shall I do that now? Yes, that's easier, and then you can ask questions!

First of all, there is nothing unusual or extraordinary about having a strategic review. I actually consider for myself that it's a little bit overdue. Legitimately so, because there were many other things to do but the last strategic review was in 2003. It's been 16 years since there has been a strategic review, so it's quite legitimate to have a strategic review at this point in time.

Second, that strategic review needs to be comprehensive, needs to look at all and every issue, will turn each and every stone and will take its time but will not take too much time. By that I mean my plan is to actually get the review started in the course of January. Don't ask me which week or which day or which second, but it will be in the course of January. Our goal is to complete it before the end of 2020.

Third, about the strategic review, it will be reaching out to not just the usual suspects, but it will also include consulting with Members of Parliament and I've committed to that with the European Parliament. It will reach out to the academic community, of course. It will reach out to civil society representatives and it will aim at not just preaching the gospel that we think we master, but also listening to the views of those to whom we reach out. It is the point of every strategic review by all central banks that are conducting this exercise to actually look at their objective, how they define their medium-term objective in particular, how they give content to the price stability that is in their mandate, and it is the only objective that we have in our mandate ourselves. So that topic indeed will be core and centre to our strategic review. There is no preconceived landing zone at this point in time.

Indeed it will also address the major changes that have taken place over the course of the last 16 years, and by that I include the massive technological change that our societies are facing. It will include the immense challenge that climate change is addressing to each and every one of us, wherever located, and whatever our mission and duties. It will include aspects of inequality that are certainly rising in our economies, and all of those will be addressed with a view to exploring each and every corner of the business that we conduct as a central bank to see how those businesses are affected and how we can take them into account to better respond to the mission that we have, and to deliver on our mandate: serving the euro area citizens, and delivering on the mandate of price stability. That's on the strategic review, and if you have additional points that I can answer, I will.

But I will not go into much further details when it comes to the substance, because the framework has not yet been completely agreed and discussed with members of the Governing Council. I have certainly made a point of my tenure to include members of the Governing Council and to seek their views and their consideration before any decision is made.

Let me add I have huge respect for the work that you do. You are a main audience for the central bank. But you are not the only audience, and I would also encourage you not to try to draw too many conclusions or decisive findings from communication that I would address to a different audience with a slightly different language in order to be maybe better understood by those who do not have your level of skills and in-depth knowledge of the matters that we deal with. With that, I am happy to take questions. Christine is going to monitor that. When I don't know, I will tell you that I don't know! Maybe you will know, Luis.

My first question is about the inflation forecast that you just read out. The 2022 forecast is now 1.6. Is it compatible with your idea of close or below 2%?

Second question is about TLTRO. The auction this morning it's fair to say didn't go too well. Banks took out fewer loans than the ones they are set to repay, so that undoes some of your work in terms of adding excess liquidity into the system via QE. What do you make of the auction, and how concerned are you about this low take-up?

President Lagarde: One thing that the introductory statement does not specify, but you will find it I'm sure in the findings of the Eurosystem macroeconomic forecast, is that in our 2022 forecast for inflation, while the entire year is forecast at 1.6%, the fourth quarter is at 1.7%. Directionally, it is slightly increasing over the course of the 2022 forecast that we have for inflation. Is it satisfactory? It is certainly directionally good. But is it the aim that we pursue? No, indeed.

On TLTRO: my recollection of what was taken this morning was something like €97.3 billion, which is a little less than what was coming for maturity Do I regard that as half success, half failure? Neither. I would tell you two things; one is, I think we have seven auctions in the course of this TLTRO III – so I would not draw a conclusion from this one. I would wait a little bit, particularly given the fact that this one is taking place at year end. At year end, you close your book, there are many considerations that come into play, so I would not draw too many conclusions from this one. I would have preferred it to be a little bit higher, closer to €120 billion than to €100 billion, but we'll look carefully at the next one.

My first question, if I may follow up on the review of what you said about the review: you said… Does the fact that you are launching the review, or launched the review, while you still haven't met your mandate, limit how much you can actually – limits your wiggle room to how much you can actually change your definition of the mandate, or your goal, since you haven't reached it yet? That's my first question.

The second question is on negative rates, because we've heard quite a lot from you, from other members of the Governing Council, about side effects of negative rates. At the same time, your statement today says, repeats you're committed to adding stimulus if it's needed. The question is how committed you still are, or maybe you're increasingly worried that side effects should actually be reflected in how you express your commitment, how you give your guidance.

President Lagarde: On the timing of the strategic review, there is never a good timing because you could argue equally that if and when you have delivered on the way in which you've defined your mandate, then why bother about a strategy? I think it cuts both ways. My purpose is really, after 16 years of the same strategy, which is the rule today and that we will respect and will continue to respect until such time when our strategic review is completed, by the way. I think it is timely, coming to this job new. It's just the most appropriate moment to rally support of members around the table to re-examine the effectiveness, appropriateness of each and every single instrument that we've used in the past to take assessment of that. Then to redefine for ourselves what exactly will be this medium-term objective that will deliver on the mandate that we have, which is not changing by the way. You said that we change our mandate -- no, the mandate is price stability. The way in which we deliver on the mandate is the one that will be under the strategic review.

Side effects: well, first of all we are very aware of the side effects. I think it's been a constant in the policy of the Eurosystem to actually measure, monitor the side effects. This is part and parcel of the work that is done, and we will certainly continue doing that. We might develop that work further. Clearly, what we have done was always intended to deliver on the mandate as defined under the current strategy, to create the conditions for growth. On that point I think that the use of interest rates in particular has been quite efficient in order to lower the financing costs. That clearly seems to have worked and seems to work properly when I look at the increase in the volume of financing both for the non-financial corporates and for the households. When I look at the decrease in the cost itself, I think that this is a policy that works. Now, the side effects are a preoccupation, there is no question about that, and we would not be doing our job if we were not monitoring and being extremely attentive to that balance of cost benefit of such measures.

Just to carry on with the side effects, do you believe there is such a thing as a reversal rate? Will this be something that is looked at by the strategic review? Will it examine in more depth the side effects of your policies?

Secondly, given that growth continues to be very weak, even by 2020 you're not expected to achieve your core target, your core objective. Do you think there's a risk of Japanification in the eurozone?

President Lagarde: On the first point, the reversal rate: my understanding of the reversal rate is that you are facing a reversal rate when credit begins contracting. That's how in economic theory the reversal rate is defined. Given the progression rate that we are seeing at 3.8%, the most recent one, in the non-financial corporate sector, 3.5% and growing in the household sector that certainly does not meet the definition of credit contraction. We are still seeing credit expansion. Are we attentive to that credit expansion and those credit numbers? Of course we are, because it's clearly one of the clear objectives that we have to facilitate the financing of growth, to facilitate the investment, facilitate the creation of employment and so on, and so forth. We are not seeing it and of course we are looking very carefully at the indicators of credit growth in the economy.

Yes, it is weak growth and it's not at potential. We're seeing reaching towards potential in the medium-term horizon. The 1.4% for 2022, we're getting close to the growth potential of the euro area. It would be very welcome to have other policies join the monetary policy in order to support the reduction of slack and to arrive at that growth potential and why not exceed it? So that would be very welcome, both in fiscal terms and in structural reform terms as well. Japanification, I don't think that we are there at all. I think that, certainly from the enterprise credit, there is a major difference between the situation that Japanese enterprises are, or Japanese households are, relative to the situation of the euro area equivalent. I don't think that Japanification is in the cards at all.

If I may, I have two questions and go back to the toolbox and negative rates. As Governor Visco from the Bank of Italy, said in a recent interview with Handelsblatt, I am more in favour of asset purchases compared to negative rates. The impact of negative interest rates is small and with potential negative side effects, as we said. The impact of asset purchases is larger and more widespread. What is your opinion on this comparison?

Then if I can go back to what you said just now, the welcome of fiscal policy: I've recently asked an influential US CEO how you viewed fiscal policy and monetary policy and the

relationship. He told me that there is nothing wrong with a central banker sitting at the table with ministers and to discuss with ministers about growth and what can be done. He said, well, they decide I do A and B, and you do C and D, and this he said doesn't make – put in danger the independence of a central banker. What is your opinion on that?

President Lagarde: All right, on the toolbox, I'm not going to revisit the past, number 1. Policy decisions that were made, stand, and were re-endorsed yet again. My view of it is that they form a package. There were several components to that package and I think that the intention was for some of the measures, such as the interest rate, to actually have an impact on the short-term end of the yield curve, the forward guidance that was also part of the package that gives a clear calendar and induces an automatic adjustment, depending on the state of the economy. It also gives and is intended to have an impact on the medium-term end of the curve. The asset purchase programme that was re-initiated is intended to have an impact on the long end of the yield curve. Based on what we are seeing, all three seem to have had the impact and certainly it has been perceived as such. I'm not going to dissect between each and every item of the package.

I think that they are there together. The two-tier system was clearly an additional attribute in order to deal with some of the negative effects that you've referred to, and is also part and parcel of the package. I wouldn't take a view on one element or the other. On the other point that you made, to me it is critically important that a central bank be independent and that in all its operations, behaviours, its independence be respected and be valued. But what you describe to me is a policy mix of first order, except that I would put a) monetary, because this is our shop b) fiscal because that's the next possible tool that can be used and c) structural reforms. So it takes many to actually dance the economic ballet that would deliver on price stability but also employment and growth. I don't see anything wrong with policymakers actually agreeing that they're going to make the efforts that they can in order to reach their respective goals.

Madame Lagarde, you were discussing the merits of the two instruments or the two main instruments at your disposal; the negative interest rates and QE. I wonder if the economy were to worsen next year, if there was one that you think would be more appropriate to use first that maybe was less – had less risks attached, some people on your Governing Council for instance are much more concerned about QE as a policy tool. I wonder if you share that concern and see QE as more of an exceptional unconventional tool.

My second question was also about your Governing Council and there has been a certain amount of disagreement in recent weeks over policy, public disagreement. Your predecessor was worried about publically challenging the ECB's decisions. Is this something that is – is this a concern that you share, that if national central bank governors criticised the ECB's decisions, that could be harmful for the institution?

President Lagarde: I see exactly where you're trying to get me! But once and for all, I'm neither dove nor hawk and my ambition is to be this owl that is often associated with a little bit of wisdom. I'm not full of vanity but I will certainly try to bring the best out of the members of my Governing Council in order to arrive at monetary policy decisions and use of instruments that will be as consensual as possible. I am not suggesting that we will arrive at complete agreement on everything, and I'm sure that the strategic review, particularly in our definition of the medium-term objectives and how we go about it, will be a source of great debate amongst ourselves. But I'm also of the view that once something has been debated at length and in depth and in honesty and with good faith, then some decisions eventually stand. They are the decisions of the central bank. I don't have a different view from that perspective.

Are some unconventional tools better than others? This is also something that we will be assessing as part of the strategic review because I think that we need to look in retrospect and assess what has been most helpful, what has worked best, what combination of them has worked best. I don't think that I would reduce it as you have to interest rates or unconventional measures, because I think within those unconventional measures, you have a variety of things that allow to target better, to also give a better indication of time. I think in that respect forward guidance is also a very interesting set of components that anchors into time, that gives a sequence, that gives enough clarification to something that by nature is going to be a little bit ambiguous nonetheless. But it introduces this element of mechanicalness or automaticity in how things are re-stated in the course of time.

I have two questions as well. One on perhaps a bit of a technical issue; whether you think that these market-based inflation expectations are actually – because there is a big gap between them and what you are expecting. If you are deciding on monetary policy, what are you looking at; market based or what are you expecting?

Then a second one on the economic outlook, because clearly there is some silver lining on the horizon, from what I'm hearing from you, but what made a big difference might be the trade conflict. So how realistic and how optimistic are you that we get some more positive impact from a resolution here and perhaps also a cyclical recovery if we are very optimistic?

President Lagarde: On your technical discussion of the measure of inflation depending on whether you measure HICP inflation as it is, with or without food and oil prices, or whether we use market-based instruments or survey-based instruments. I think we need to look at all of them. We need to look directionally where it's heading. I very strongly believe in the trends and in the direction. I know that we are all concerned, and I'm concerned as well, with the 0.1 more or less in that direction, but directionally I think that we are seeing some consistent move. As part of the strategic review, I also think that we will have to look into that because inflation perceptions can differ as well. Markets have their own assessment and measurements for that. Households have a different perception. Some of the national central banks in the Eurosystem are actually paying close attention to that and are trying to measure those components as well.

The whole debate of whether or not we take housing into the measurements and what portion of housing and how do we dissect between the asset value of the land and the actual use of the premises. Those are tricky technical questions that we will have to look at, and on which we should also take a view because there is – you're right – quite a difference between the various perceptions, anticipation, expected inflation depending on how we measure it. So outside this point in time, we take all of it into account. I personally and I don't know if Philip [Lane] would agree with that or if Luis, you would agree with me, but we look at directionally whether we are consistent between the various measurement. But I think increasingly we will have to look at how it is disaggregated as well as part of our deliberations.

On the outlook, as I said, relatively weak growth, let's face it. What I think gives us some hope, and you alluded to that, is the fact that those downside risks that we had on the horizon are less pronounced and we are not going to bet on how phase 1 of the trade discussions between the United States and China are heading, and when they will be completed, and what it will deliver. But certainly if we compare with a few months back, it's heading in a better direction. That's one. We will know by the end of today what is the outcome of Brexit – sorry, not of Brexit; I shouldn't say that. What is the outcome of the UK election, which will have a bearing on what happens to Brexit and the transition period. That's also an element of uncertainty that is probably loosening and that will give us a bit more clarity as to the environment in which we operate. That's encouraging, let's put it that way.

My first question is also on the review. You said that it will include an assessment of the instruments used in the past, of the benefits and the risks. Will it also include a discussion about other instruments that could be used in the future, like buying equities, helicopter money or something like that, only to be prepared in case it's needed in the future?

The second one is on the digital euro and the discussion about central bank digital currencies. A statement recently to the ECOFIN said that the ECB in the future needs to be prepared in case it's needed. How exactly is this work proceeding within the ECB? Do you expect a digital euro in the coming years, for example in the next eight?

President Lagarde: For the instruments, I think it is completely legitimate to take stock and to assess the effectiveness and the efficiency of the various instruments one by one, taken together and what leverage they have exercised and what result they have delivered. As to the future, I think it's going to be for the Governing Council to actually define how as part of the framework we will be considering those. I see very much the strategy as a house that we build stone by stone, one after the other, and I think that's one element that will have to be decided by the Governing Council.

On the digital currency, first of all I would like to pay tribute to somebody who is leaving at the end of the year, who has been instrumental at the ECB and way beyond, to help us understand a bit better and with more clarity the difference between the bitcoins of this world, the stablecoins and the digital currency. By that I mean Benoît Cœuré, who has been a member of the Governing Council, a member of the Executive Board of the ECB, and who is finishing at the end of this year. He produced a paper which was commissioned, if I recall, by the G7. But he also very ably participated in a paper that was prepared by the ECB, that was distributed by Vice President de Guindos at the last ECOFIN, if I recall, which has the benefit in three pages – I think that's a huge challenge – to draw the line between what we are talking about; between the bitcoins, the stablecoins and the digital currency.

On the latter point, the digital currency, we have set up a taskforce and we will accelerate the effort of this taskforce, drawing on the resources of the entire Eurosystem; meaning the national central banks that already participate in that research, that have already committed to the project in terms of experimentation, pilots here and there. So harnessing on all those experiments that have taken place and all the research that has already been put into this effort, together with the work that has been done here also, we will… I think we're trying to do that by mid-2020. We will identify the purpose that we have with that. Are we trying to reduce cost? Are we trying to cut out the middleman? Are we trying to have inclusive finance at all costs – at no cost? There's a whole range of objectives that can be pursued, so I think we will start by doing that.

Then we will identify the technicalities of it all, which is not a given, particularly when you talk about the Eurosystem. I think that there is also great interest outside our regional area. I know for instance that

Canada, the UK, certainly other countries are also looking very deeply into that, to see if it makes sense, what purpose it serves and how we can best deliver on it. My personal conviction is that given the developments we are seeing, not so much in the bitcoin segment but in the stablecoins projects, and we only know of one at the moment, but there are others being explored and underway at the moment, we'd better be ahead of the curve if that happens because there is clearly a demand out there that we have to respond to.

I would like to add a footnote to that: I think the benefit of the paper is that it also draws a line between this sort of glamorous central bank digital currency, much talked about and worth exploring, and the digital payment systems that we have and that exist. We have several items that are completely digitalised that are not at the front end and that the banks' clients do not perceive as being in operation, but where settlement and clearing are actually taking place instantly thanks to the digital payment system that has been put in place; notably within the Eurosystem. So on those digital systems that exist, some of which need a better take-up by some of the members of the system, I will continue to push because I think we have something which is really worth developing and encouraging. I'm talking here about TIPS and PEPS and all those acronyms that I should not be using, but I don't know what they stand for. All I know is that they deliver in digital terms the operations of clearing and settling, sometimes in one single operation.

Madame President, the ECB is running a very accommodative policy, despite the fact that the eurozone unemployment rate has gone back down to pre-crisis levels. What does this suggest about the magnitude of the output gap in the eurozone? What are the specific signposts that the Governing Council is looking for in order to gauge the amount of the remaining slack?

If you allow me a question on Greece: Greece is delivering above average growth for years now and quite high primary surpluses. It has re-established market access. However the problem is that it's still hampered by bail-out-era restrictions. I'm referring to not directly participating in QE or the ceilings in banking portfolios of Greek bonds. Do you think that there is something that the European Central Bank could do in order to transmit its impulse to the Greek banking system and in a way increase bank lending faster?

President Lagarde: On your first point, and concerning the use of our various instruments in order to deliver on our mandate, we have one objective and that's price stability as defined under the strategy as it stands today. That's the goal, that's the aim and that's what we are pursuing. I wouldn't venture too much into this theory of the output gap, how much slack there is, how much slack there is not. Informed by good discussions that I've had with colleagues on the other side of the Atlantic, including at the Fed, they had… They now say actually that they had strongly underestimated the slack of the employment market. At 7.5%, do we still have some? My hunch is that we do, but I would not guesstimate on that particular front. I think we tend to get it more often wrong than right. That's not passing out judgement on the forecasting ability of the ECB, because I think that we do actually have more trust in our forecast.

On Greece: well, first of all I would like to compliment Greece. Greece has been the long story for me in other capacities and I'm really delighted to see the progress and to see the recovery and to see the results. It's very impressive both on growth and on the primary surplus. I have my views on that, don't need to repeat them. The various public purchase programmes of the ECB are subject to eligibility criteria and they're also for the benefit of the entire Eurosystem and all people in the euro area. So my guess is that as soon as Greece reaches those eligibility criteria, it will become eligible instantly to those programmes. Until such time we have to respect the eligibility criteria and we have to play by the rules.

How do you see the Green Deal package of the European Commission and how do you see the social climate in France?

President Lagarde: Well, thank you very much for asking about the Green Deal that was presented yesterday by the President of the European Commission, my friend Ursula von der Leyen. I am very pleased to see the ambition of what she has announced. I very much hope that this ambition can actually be endorsed by all European institutions in their respective territory, with their respective mandate, and in compliance with the treaties. What it means is that in our strategic review, we will take up climate change, we will take up the fight that is taken up by the European Commission and I hope other European institutions, and see where and how we can participate in that particular endeavour. But I'm only sorry about one thing: I was hoping yesterday morning that the taxonomy was a done deal and unfortunately, the Coreper as I understand has not found an agreement yet on taxonomy, which would be extremely helpful for us. That's a call to them to find an agreement.

I'm not commenting on any particular country; you will appreciate that, but when we say that we want to deliver on our mandate, we also know that monetary policy is going to be supported and boosted by other policies amongst which the structural reforms that will improve productivity, that will improve growth, creation of employment, certainty of the economic players. So in that respect, clearly reforms are a necessary component of addressing the future.

Some politicians in Italy have discovered one month ago something which is called the ESM and so discussions started and some critics, they say that it would imply some form of debt restructuring. They don't want it, so I wanted your opinion on this, on the ESM, which the discussion should have been closed but it isn't.

The second question is on the banking union, because there it has been Olaf Scholz that has restarted a discussion again on the third pillar, so-called on the scheme of the deposit scheme. But there is still a big discussion going on, on how sovereign bonds should be considered in the balance sheets. Now even the Bank of Italy is open to the possibility to limit them in the balance sheets, but I want also to know if you are okay with the hypothesis to consider them not neutral in the balance sheets of the banks.

President Lagarde: On the European Stability Mechanism, and I am saying it on purpose rather than ESM, because I think each and every word actually matters. It's about stability, it's a mechanism that would be in place if completed and if embedded in the treaty, and it's European. So it's nothing that is intended to disrupt, to damage or to hurt any particular member of the euro area. If we had had the ESM in full place, including the collective action clause and the debt restructuring mechanism, if we had had that in place at the very early days in the Greek crisis, I think collectively we would've been much more capable of resolving the issue in a more expedited manner. The debt restructuring process that it took as far as Greece was concerned was difficult, took much longer than I think it would have with the ESM. We can't rewrite history and it's a counterfactual that I am using here, but clearly having rules established, having CACs – the collective action clause – that are intended to avoid the behaviour of some very toxic creditors, as I have seen them acting in other countries, I think it's beneficial to any country that finds itself in a difficult position, and to assume that it's intended to target a particular country I think is completely misguided. That's my view.

On the banking union, I was really encouraged to see the paper produced by a colleague, Olaf Scholz, and clearly there are areas that are in debate. The weighing of sovereign bonds is clearly one; it's one where Italy is showing some openness, as I understand, and I think it's great progress. Whatever progress will happen in that area will actually be good, because banking union is one of the necessary attributes together with capital markets union, in order to make sure that we have a monetary union that works and that where the different elements actually support each other.

I would like to know if the Governing Council has discussed at all the limits of the APP programme in this meeting, or if it is planning to do it so in the near future. Or it is something more for the strategic review?

President Lagarde: You only have one question?

Yes.

President Lagarde: Everybody has two! I was surprised. My answer is very quick; no, we have not discussed it. Thank you very much and I'll see you next year, so happy holidays, Merry Christmas and whatever you celebrate. I hope you are happy and making other people around you happy.

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